

VZCZCXYZ0000
PP RUEHWEB

DE RUEHKB #0728/01 2180442
ZNY CCCCC ZZH
P 050442Z AUG 08
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 5768
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEKDIA/DIA WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RHMFISS/CDR USEUCOM VAHINGEN GE PRIORITY
RUEAIIA/CIA WASHINGTON DC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L BAKU 000728

SIPDIS

EUR FOR MATT BRYZA; EEB FOR BOYDEN GRAY AND STEVE MANN

E.O. 12958: DECL: 08/03/2018

TAGS: [ECIN](#) [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [PINR](#) [PREL](#) [AZ](#) [TU](#)

SUBJECT: SOCAR VP, SE GRAY DISCUSS NEXT STEPS RE TURKEY

REF: A. BAKU 719

[1](#)B. BAKU 721

[1](#)C. BAKU 726

[1](#)D. ANKARA 1286

Classified By: Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b, d)

[1](#)1. (C) SUMMARY: SOCAR Marketing Vice-President Elshad Nassirov, one of President Aliyev's key energy advisors, told SE Gray that selling any more than four billion cubic meters (bcm) of Shah Deniz Phase Two gas (SD2) to Turkey would "kill the Southern Corridor project." He said Turkey sought eight bcm of SD2 gas to kill the project and to gain the ability to force Azerbaijan to sell it gas at submarket prices. He said Turkey should be made to realize that Azerbaijan has alternatives for selling Shah Deniz Phase Two gas, to include Russia, Iran, and "Nabucco without Turkey," i.e. a Black Sea pipeline from Georgia to Bulgaria that would deliver at least 10 bcm of Azerbaijani gas to Europe. He urged the USG to work to encourage Greece to accept a deal whereby SOCAR would take over an existing Botas contract for gas sales to Greece. Nassirov, the main GOAJ point person for SD2 marketing, is focused on finding alternatives to transit through Turkey, partly to prepare the GOAJ for alternatives, but primarily as a way to convince Turkey that the GOAJ has options. END SUMMARY.

[1](#)2. (C) On July 14 Special Presidential Envoy for Eurasian Energy C. Boyden Gray, Eurasian Energy Coordinator Ambassador Steven Mann and Ambassador Derse met with SOCAR Marketing Vice-President Elshad Nassirov. Also present were (on the U.S. side) U.S. Trade and Development Agency Regional Director Dan Stein, Department of Energy Director of Russian and Eurasian Affairs Lana Ekimoff, and Embassy Energy Officer, and (on the SOCAR side) SOCAR Presidential Advisor Murat Heydarov.

TURKEY

[1](#)3. (C) SE Gray gave Nassirov a readout of his GOT meetings (reftel A), highlighting the divergence in priorities between the PM and MFA on the one hand, seemingly eager to cooperate on the Southern Corridor, and the Energy Minister, who seemed exclusively focused on getting eight bcm/a from Azerbaijan. Nassirov said that the GOAJ seems to share the same vision with the GOT MFA, adding that even the Energy Minister Gular has always been "positive" in discussions, with Botas leadership less so.

8 BCM = TURKISH TRICK

¶4. (C) Nassirov doubted that Turkey actually needed 8 bcm/a from SD2, and said that its demands were a ploy to kill the Southern Corridor Project and allow itself the right to impose a price on Azerbaijan. He said that if Azerbaijan were to sell 8 bcm/a of SD2 to Turkey, only 2.5 bcm/a would be left, after having also accounted for Georgian and Azerbaijani needs. This amount would be too small to sanction any pipeline. Turkey, then being the dominant customer for SD2 gas, would seek to unilaterally impose a submarket price for SD2 on Azerbaijan a few years into the contract.

¶5. (C) Nassirov said SD2 production would be approximately 13.8 bcm/a. Of that, 3 bcm/a would go to Azerbaijan and Georgia, leaving approximately 10.5 to 11 bcm/a for Turkey and beyond. The SD Consortium position is to sell a maximum of 4 bcm/a to Turkey so that 6 bcm/a is left, enough to sanction one pipeline project - "if Turkey needs more than 4 bcm/a, it can get it from Russia, Iraq or Iran; we need European access." Nassirov stressed that if Turkey were to buy more than 4 bcm/a of SD2, "there would be no European pipeline, and Turkey would be able to impose gas prices on Azerbaijan."

¶6. (C) Nassirov said that the SD Consortium was almost done fashioning a working group to market SD2 gas (COMMENT: According to SD Consortium member StatoilHydro, this SD working group is composed of representatives from BP, Statoil, SOCAR and Total. After contracts are signed, the Consortium will create a Special Purpose Vehicle) SPV, to administer the contracts. END COMMENT). BP and Statoil on the one hand and SOCAR on the other are still discussing the exact decision-making mechanism, with each side wanting "negative control" over the other's decisions.

RUSSIA

¶7. (C) Nassirov said that Russia was getting serious, about blocking the Southern Corridor. During Russian President Medvedev's recent Baku visit, Gazprom repeated to SOCAR that it wanted to buy all SD2 volumes, not just the two to three bcm/a that SOCAR offered. SOCAR told them to prepare a commercial proposal. Gazprom was offering "European prices, minus 15 percent profit for Gazprom, minus transit," which according to Nassirov would equal an unacceptably low USD 246 per thousand cubic meters. Despite this low initial offering price, Nassirov categorized his talks with Gazprom as positive, in sharp contrast to his discussions with Turkish interlocutors. Referring to a 90-minute chat he had with Gazprom CEO Alexei Miller while both were at the airport waiting for the arrival of President Medvedev, Nassirov said that it was hard to describe how relaxed and self-confident the Russian was in contemplating Gazprom's domination of the European gas market, which Miller seemed to take as a fait accompli. He said that Miller was very pleased with a recent Economist article pointing to GazProm,s influence on the Russian resurgence.

ALTERNATIVES

¶8. (C) Nassirov said that "Turkey should realize Azerbaijan has other options" should Turkey refuse to provide gas transit to Europe. In addition to selling SD2 gas to Russia and/or Iran, the GOAJ could pursue a "Nabucco without Botas" strategy, in which the SD2 gas went from Georgia across the Black Sea in a pipeline to Bulgaria, enabling a minimum of 10 bcm/a to arrive in Europe, as "the Black Sea will not ask for eight bcm." (COMMENT: When informed of technical limitations, relating to the inability to achieve sufficient compression offshore, that would limit pipeline capacity to approximately five bcm/a, Nassirov subsequently refined the idea by having the pipeline touch land, for recompression, south of Sevastopol in Ukraine, before continuing on to Bulgaria. END COMMENT). Nassirov said that Bulgarian President Parvanov had been active in forming this idea.

Under this scenario, four of the six Nabucco members would vote Botas out and subsequently vote in Gas De France. OMV CEO Wolfgang Ruttensdorfer and OMV Gas CEO Werner Auli were both "enthusiastic" about the idea, but told Nassirov it would be impossible for them to mention this option to Botas.

GOAJ-GREEK CONTRACT?

¶9. (C) Nassirov said that currently Turkey sells 750 million cubic meters per year of gas (mcm/a) to Greece, at USD 120 per thousand cubic meter (mcm). The price of this gas is linked to the price of SD1 gas being sold to Turkey from Azerbaijan, so when the SD1 price is re-negotiated upwards to a market price, this price will also rise. Nassirov pointed out that Turkey is selling gas to Greece at USD 149/tcm (SD1 price of USD 120/tcm, plus USD 29/bcm transportation to Greece) while it is buying gas from Gazprom at USD 500/tcm, and that Turkey has proved an unreliable supplier, cutting off gas to Greece when faced with domestic shortages. Nassirov said that in order to secure the principle of transit through Turkey, the GOAJ is willing to in effect take over the Turkish contract. Everybody wins -- the GOT gets a chance to dump an economically unviable contract, DEPA gets guaranteed gas at low prices, and Azerbaijan gets affirmation of the principle of direct sales to a European customer, with clear transit through Turkey. Nassirov urged the USG to encourage the Greeks to work for this contract with Azerbaijan.

¶10. (C) Ambassador Mann said that the desired end state should be one where Turkey gets some SD2 volumes and assurances concerning future supply of gas While other SD2 gas moves onward to Europe Referring to GOT pressure on the USG to cooperate on GOTX energy sector development, Mann said that the USG should remind Turkey that "there will be no Turkmen gas without Azerbaijan." As to GOT's willingness to budge on transit, he observed that in this part of the world normally "nothing happens until right after it has to happen," i.e. the transit issue will get solved only when it needs to -- by the time when SD2 needs to enter the "define" phase (first or second quarter 2009). Mann also told Nassirov that the more that Azerbaijan can do to make ACG Deep Gas a reality, the easier negotiations with Turkey will proceed, because the GOT will "see additional volumes coming available." Nassirov countered that he doubted that "additional gas would make Turkey realistic," adding that Turkey was using the gas transit issue to enhance its prospects for EU accession. He confirmed that Gazprom had told Turkey that it would not be able to renew its 6 bcm/a supply contract ending in 2011. Mann concluded by saying that this was still the "horse-trading stage," and that current positions were not final ones. Turkey's message has always been consistent: it wants full gas supply with maximum flexibility, and a "cushion" for potential surplus energy demand.

¶11. (C) COMMENT: Nassirov, the main GOAJ point person for SD2 marketing, is focused on finding alternatives to transit through Turkey, partly to prepare the GOAJ for alternatives, but primarily as a way to convince Turkey that the GOAJ has options. END COMMENT.

¶12. (U) This cable has been cleared by SE Gray, Ambassador Mann.
DERSE